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SUBJECT: ADDITIONAL TOPICS FOR OLMERT MEETINGS IN WASHINGTON

Classified By: Ambassador Richard H. Jones; Reasons 1.4 (B and D).

1. (C) Summary: Ehud Olmert's main public goal for his first trip to Washington as prime minister is to win U.S. support for what he calls the "convergence plan," which will relocate 60,000 - 80,000 settlers from isolated areas in the West Bank to other settlement blocs west of the separation barrier (septel). Despite this focus, Olmert has other important issues on his plate as well. According to his advisers, Olmert also plans to discuss the Iranian nuclear threat, humanitarian assistance for the Palestinians, contacts with the Palestinians, the isolation of Hamas, and Lebanon/Syria when he sees the President on May 23. As appropriate, we recommend that the U.S. side in Olmert's meetings raise trafficking in persons, efforts to win Israeli membership in the Red Cross/Red Crescent movement, and settlements/outposts. Olmert's domestic position has been bolstered recently by the strength of Israel's 6.6 percent first-quarter 2006 growth report and the USD 4 billion cash purchase of an Israeli company by super-investor Warren Buffet. End summary.

Ending Iran's Nuclear Weapons Program

2. (C) Israelis believe that the Iranian nuclear weapons program threatens their very existence. Olmert will want to discuss the United States strategy to ensure that the international community takes the necessary steps to prevent Iran from developing nuclear weapons. Israelis enthusiastically welcomed the President's statement at the American Jewish Committee affirming America's strong, enduring, and unshakeable commitment to Israel's security. Israeli intelligence services, under standing instructions to present only worse-case scenarios, predict that Iran will reach the "point of no return" soon. These estimates are more alarmist than those prepared by the rest of the international community, including the United States. Israel has maintained what it considers to be a low-key posture in the realization that its open involvement in the dispute would likely be counterproductive. Nonetheless, Iranian President Ahmadinejad's inflammatory rhetoric has inevitably goaded Israeli officials to respond sharply on occasion.

Palestinian Issues: Aid, Contacts, and Hamas

3. (C) Olmert wants to work closely with the United States on continued assistance to the Palestinians. He will want to know U.S. views regarding which types of projects should continue. Israeli officials say that Olmert will likely seek the removal of the hold placed on USAID's Palestinian Integrated Trade Arrangements (PITA) projects, which, i.e., provide USD 50 million for scanners for border crossings. While the Israelis want maximum pressure on Hamas, they realize that it is not in their interest to have a humanitarian crisis in the Palestinian territories. Their goal is to ensure that assistance to the Palestinian people does not benefit Hamas. They fear that the mechanism the EU is developing for providing assistance will be used to pay salaries or lead to contacts with Palestinian ministries. Nonetheless, current Israeli thinking on which projects should be supported on humanitarian grounds may be more flexible than that of the United States. The GOI supports maintaining many private-sector development and infrastructure projects, such as the Hebron sewage treatment plant, agribusiness partnerships, small business assistance, and micro-loans, all of which arguably also benefit Israel. In addition to paying Palestinian bills for electricity and water, FM Livni has expressed a willingness to consider using collected Palestinian Authority tax revenues for humanitarian assistance, most notably medical equipment, but the Israelis must first develop a system, including the legal means, of doing so. At this point, they may work through NGOs, international organizations, or directly with hospitals, including those in East Jerusalem. Livni has been unwilling to consider paying Palestinian fuel bills, but did not rule out the possibility of supporting a humanitarian fuel reserve.

4. (C) Although the Israelis say they are willing to give negotiations with the Palestinians a chance prior to

unilateral moves, Olmert has told many U.S. visitors that there is no Palestinian partner. The Hamas government has declined to accept the three U.S./Israeli conditions for dialogue, and Olmert views President Mahmud Abbas (Abu Mazen) as well meaning but ineffective. The Israeli Government would have preferred to boycott any foreign official who meets with any Palestinian Authority official, including Abbas, but instead developed a more nuanced policy once it became clear that the United States would continue to deal with the Palestinian President. Olmert's advisers justify their disdain for engaging with Abbas by insisting that Hamas is using the office of the president to gain international legitimacy. The Labor Party and parts of Olmert's own Kadima Party favor renewing negotiations with Abbas. Olmert's advisers have hinted that he may do so sometime in June. Peretz stated this as fact to the Ambassador on May 17.

15. (C) Olmert and his staff remain concerned that the UN, Russians, and European Union will gradually break ranks with the international community's insistence that Hamas recognize Israel, renounce violence, and accept previous agreements such as the Roadmap and the Agreement on Movement and Access. He will want reassurances that the United States will not only maintain its current policy, but also continue efforts to keep others on board.

Lebanon/Syria

16. (C) Although casualties along Israel's northern border have decreased since 2000 when Israel withdrew its forces from southern Lebanon and adjusted its "blue line" (de facto border) under UN supervision, Israel continues to face Hizballah attacks and to conduct reconnaissance overflights of Lebanese airspace. The Israelis are privately supportive of U.S. policy on Lebanon, particularly Franco-American initiatives at the UN calling for the disarmament of armed militias (UNSCR 1559) and investigation of responsibility for the murder of former Lebanese PM Hariri. At our urging, they have maintained a low public profile on these issues, despite their frustration with the failure of the Lebanese Armed Forces to displace terrorist militias in the border region. The exceptions to this low-profile approach are frequent Israeli violations of Lebanese airspace, often to remind the Lebanese of Israeli military dominance. Olmert and his advisers strongly support the U.S. policy of isolating the Asad regime in Damascus, but have expressed concern that regime change could result in a less stable and more dangerous Syrian government.

Trafficking in Persons

17. (C) The Government of Israel has made appreciable progress in fighting trafficking in women. Problems remain, however, in Israeli efforts to combat labor trafficking, and these problems may lead the U.S. Government to downgrade Israel's status in the annual trafficking report, due out in June. Such a downgrading will be an embarrassment to the GOI, which was originally categorized as a Tier 3 country, the lowest ranking, but advanced to Tier 2 status by virtue of its active and largely successful efforts in recent years to combat sex trafficking. Olmert reportedly raised with Foreign Minister Livni at a May 14 Cabinet meeting the need for further GOI action to combat labor trafficking. The Ambassador has pressed Livni, Justice Minister Ramon, Defense Minister Peretz (in his capacity as head of the Labor Party), and other senior officials to take expeditious action. Given the President's stated personal determination to combat trafficking in all forms, and the seriousness of a partial downgrading of Israel's ranking, USG officials should use the visit to press Olmert for action. If the issue is discussed in Washington, Olmert may press for U.S. assistance in securing Israel's border with Egypt, which Israeli officials claim is a prime conduit for sex trafficking victims, but which contributes only little to the overall trafficking problem. FM Livni made such a pitch in April, maintaining that an increase in border security would improve Israeli security against infiltration by terrorists, criminals, and traffickers from the Sinai. Israel does not, however, want to see an enhanced Egyptian troop presence along the border.

Israeli Membership in the Red Cross Movement

18. (C) The United States and Israel have worked for decades to obtain admission of the Magen David Adom (MDA) first aid society into the International Red Cross/Red Crescent Movement. That effort cleared a major hurdle in December, when the member countries approved in principle the use of a new "red crystal" protective emblem for those countries that prefer not to use a cross or crescent. As the critical element of this development, Israel committed to taking several actions to bring itself and the MDA into compliance

with the Movement's provisions. International delegates will convene on June 20-21 in Geneva to vote on amending the ICRC statutes and admitting MDA into the movement. Prior to that vote, it is key that -- by May 31, when a compliance visit is to be conducted -- the GOI agree to amend the MDA's own statutes and to implement an agreement signed in December between MDA and the Palestinian Red Crescent Society. Failure to do so by that date would be a serious setback in our decades-long mutual effort, which we have reinvigorated recently through intensive efforts with the highest levels of the new GOI (including Livni, Ramon, and Peretz). While Olmert is unlikely to be aware of the details of the technical changes, he will certainly understand the importance of not missing this opportunity.

Settlements and Outposts

19. (C) Officials of the new GOI have given assurances that Israel plans to carry out its now years-long commitment to remove all illegal outposts within one year. As recent violent clashes during the evacuation of Amona outpost illustrate, moving settlers from the 22 illegal outposts identified by Israel will be quite difficult. (Note: We count 44 illegal outposts established since 2002. End note.) Justice Minister Ramon stated recently that the separation barrier should be completed by the end of 2006. This timetable could be met practically, but litigation before the Israeli Supreme Court challenging the barrier's route could slow implementation. Once the barrier is completed, Olmert plans to provide compensation to settlers who voluntarily leave both illegal and legal outposts and settlements lying east of the barrier. Although he is committed to closing illegal outposts as part of his convergence plan, the issue still represents a political minefield for him, one he will have to tread carefully. Coalition members such as the religious Shas Party and other groups, although not representing a majority of the population, remain opposed to additional evacuations.

Israeli Economy Flourishing

10. (C) Olmert's domestic position has been bolstered recently by good news on the strength of the Israeli economy, which grew at the rate of 6.6 percent for the first quarter of 2006, compared to an already impressive 5.2 percent rate for all of 2005. This growth report came on top of the news of the USD 4 billion cash purchase by Warren Buffet 80 percent of the Israeli firm, Iscar, which specializes in the production of specialized blades and cutting tools. Furthermore, several investment and rating firms have come out recently with positive reviews of the economy, including Morgan Stanley, which called Israel's economic situation "almost perfect." The formation of the governing coalition has, however, been expensive, and it is not yet clear how strictly the government will adhere to the idea of fiscal restraint. Although there have been press reports indicating that the GOI will increase year-to-year expenditures by the rate of growth of the population -- 1.7 percent -- instead of the one percent to which it is limited by the 2003 U.S.-Israel Loan Guarantee Agreement, Finance Minister Hirschson assured the Ambassador on May 16 that the government remains strongly committed to the one-percent figure and to careful fiscal restraint. He noted that as chairman of the Knesset's Finance Committee, he had partnered with then Finance Minister Netanyahu in securing passage of the previous GOI's economic reform package. There would be no roll back of reform on his watch.

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JONES